ANNUAL REPORT

CONTAINER CORPORATION OF AMERICA

CHICAGO, ILLINOIS

1939

FISCAL YEAR ENDED DECEMBER THIRTY-FIRST

MARCH 27, 1940

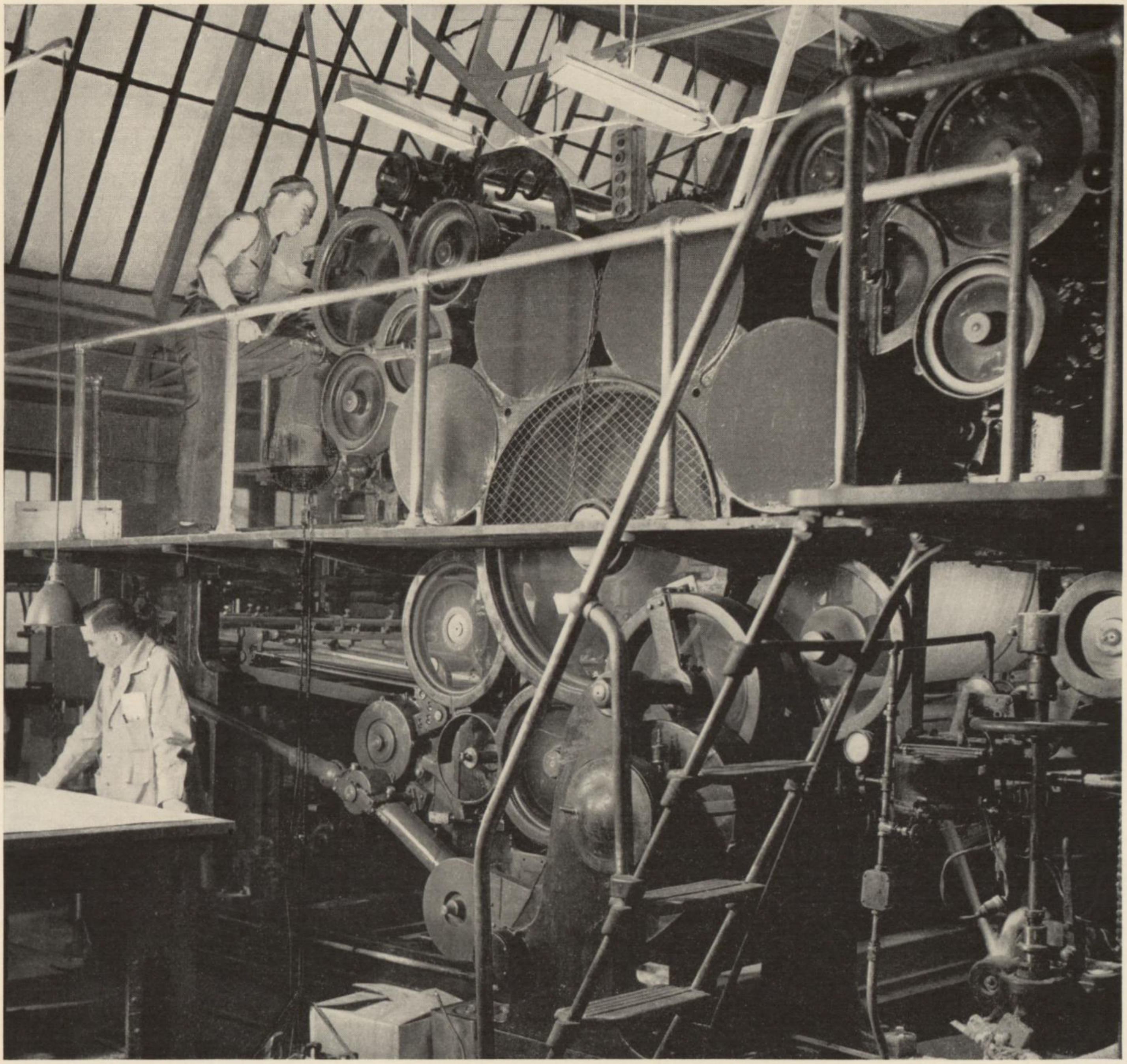
CONTAINER CORPORATION OF AMERICA

MILLS	Carthage, Indiana Chicago, Illinois Circleville, Ohio Fernandina, Florida Kokomo, Indiana (idle) Philadelphia, Pennsylvania Wabash, Indiana Wilmington, Delaware (leased)
FACTORIES	Anderson, Indiana Chicago, Illinois Cleveland, Ohio (leased) Cincinnati, Ohio Natick, Massachusetts Philadelphia, Pennsylvania Rock Island, Illinois (leased)
BRANCH AND SALES OFFICES	Akron, Ohio Anderson, Indiana Chicago, Illinois Cincinnati, Ohio Cleveland, Ohio Detroit, Michigan Indianapolis, Indiana Louisville, Kentucky Minneapolis, Minnesota Natick, Massachusetts New York, New York Peoria, Illinois Philadelphia, Pennsylvania Pittsburgh, Pennsylvania Rochester, New York Rock Island, Illinois St. Louis, Missouri Wabash, Indiana
OPERATING SUBSIDIARY	Pioneer Paper Stock Company Plants (all leased) located at Chicago, Ill., Detroit, Mich., Kalamazoo, Mich., Philadelphia, Pa.
AFFILIATED COMPANY	Sefton Fibre Can Company, St. Louis, Mo.

111 WEST WASHINGTON STREET, CHICAGO

DIRECTORS	William R. Basset, New York, New York J. J. Brossard, Chicago, Illinois Henry B. Clark, Chicago, Illinois Wesley M. Dixon, Chicago, Illinois John L. Dole, Chicago, Illinois George deB. Greene, New York, New York William P. Jeffery, New York, New York Walter P. Paepcke, Chicago, Illinois J. V. Spachner, Chicago, Illinois
EXECUTIVE COMMITTEE	William R. Basset William P. Jeffery Walter P. Paepcke
OFFICERS	President, Walter P. Paepcke Vice President, J. J. Brossard Vice President, Wesley M. Dixon Vice President, Ira C. Keller Vice President, J. V. Spachner Treasurer—Comptroller, H. C. Baumgartner Secretary, E. A. Wagonseller Assistant Treasurer, Christ Madsen Assistant Secretary, L. A. Combs
TRANSFER AGENTS	Container Corporation of America, Chicago, Illinois City Bank Farmers Trust Company, New York, New York
REGISTRARS	Continental Illinois National Bank and Trust Company, Chicago, Illinois The Chase National Bank of the City of New York, New York

ANNUAL REPORT



The company has three carton printing plants and many fine presses. This two-story Cottrell press prints 4 colors at one time at the rate of 2,500 sheets per hour. It is so accurate in register that it can faithfully reproduce full color photographic subjects.

CONTAINER CORPORATION OF AMERICA

CHICAGO, ILLINOIS, MARCH 27, 1940

TO THE STOCKHOLDERS OF
CONTAINER CORPORATION OF AMERICA

We submit herewith the Annual Report of Container Corporation of America for the year ended December 31, 1939, including the Auditors' Certificate, a Consolidated Balance Sheet, a Summary of Consolidated Profit and Loss and Surplus Accounts and a tabulation of Funded Debt. To give you additional information in regard to your Company's operations for the past year, there are included in this report tabular comparisons, illustrations and further detailed comments.

FINANCIAL REVIEW

PROFIT AND LOSS. The consolidated net profit for 1939 was $1,448,900 compared with $29,470 for 1938. In each case, earnings are net after administrative charges, interest, and provisions for depreciation, bad and doubtful accounts, local and Federal taxes.

These earnings are equivalent to $1.85 per share on the 781,253 outstanding shares of capital stock. Quarterly earnings per share were:

1st Quarter	$ .03
2nd Quarter	.01
3rd Quarter	.32
4th Quarter	1.49*

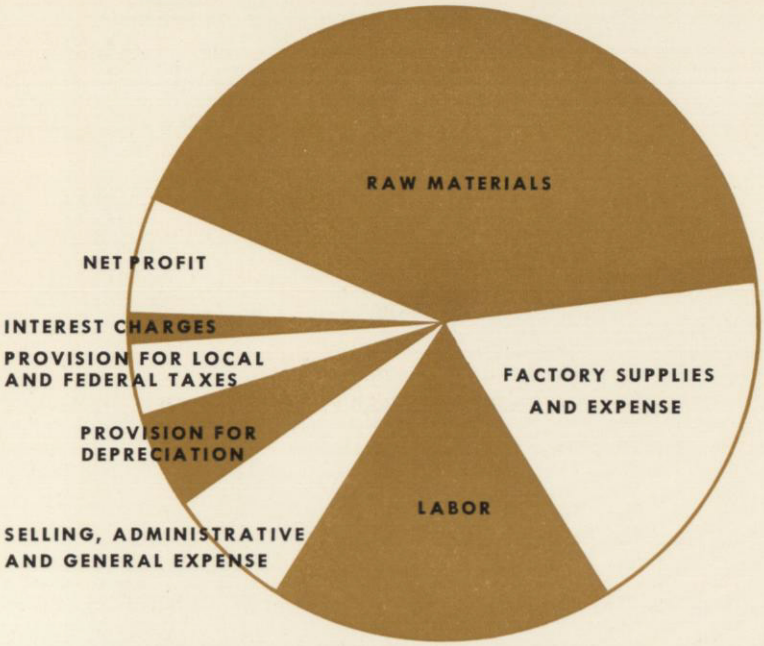
*(Including year end adjustments representing $.27 per share)

A comparative summary of operating results for the last three years follows:

	1939	1938	1937
Consolidated net sales (including brokerage sales of subsidiary)	$24,114,815	$18,705,290	$25,268,327
Cost of sales (exclusive of depreciation)	19,172,531	15,295,294	19,201,297
Gross profit (exclusive of depreciation)	$ 4,942,284	$ 3,409,996	$ 6,067,030
Provision for depreciation (1939 includes $3,669 of depletion)	1,180,417	1,261,111	1,216,800
Gross profit from operations	$ 3,761,867	$ 2,148,885	$ 4,850,230
Selling, administrative and general expenses (exclusive of bad debts)	1,690,557	1,748,504	2,027,711
Net profit from operations (exclusive of bad debts)	$ 2,071,310	$ 400,381	$ 2,822,519
Other charges:			
Provision for bad debts, less recoveries	$ 18,923	$ 11,891	$ 120,871
Non-operating rental expense, etc.	24,065	28,882	96,305
Flood loss at Cincinnati plant	—	—	60,393
Loss on capital assets retired	107,990	56,879	—
	$ 150,978	$ 97,652	$ 277,569
	$ 1,920,332	$ 302,729	$ 2,544,950
Other income:			
Purchase discounts, interest earned, etc.	$ 156,001	$ 142,938	$ 105,178
Rental income	31,214	30,644	36,714
Net profit on sales or retirements of capital assets	—	—	63,907
	$ 187,215	$ 173,582	$ 205,799
Net profit before interest and Federal income taxes	$ 2,107,547	$ 476,311	$ 2,750,749
Interest charges, etc.:			
Interest on first mortgage bonds	$ 156,664	$ 163,687	$ 175,372
Interest on debentures	160,645	184,893	199,115
Amortization of debt discount and expense	38,124	39,018	39,227
Other interest, etc.	10,171	25,043	24,930
	$ 365,604	$ 412,641	$ 438,644
Net profit before Federal income taxes	$ 1,741,943	$ 63,670	$ 2,312,105
Provision for Federal income taxes:			
Normal and excess profits taxes	$ 293,043	$ 34,200	$ 389,100
Surtax on undistributed profits	—	—	138,900
	$ 293,043	$ 34,200	$ 528,000
Net profit carried to earned surplus	$ 1,448,900	$ 29,470	$ 1,784,105

Completed cartons being delivered at the end of one of a battery of modern gluing machines. Often these machines fold and glue at the rate of 500,000 lineal inches per hour, while the individual cartons move so rapidly that they appear to be an unbroken stream. An automatic counter flicks out every 50 or 100 cartons, as may be seen in the picture. The machines are so flexible that they can glue cartons as small as those for razor blades and as large as those for blankets.

Depreciation charged against operations was $1,176,748. This was the gross amount added to the depreciation reserve account. Deducted from this account was $201,978 of accumulated depreciation on those assets which were sold or retired during the year. Therefore, the difference between $1,176,748 and $201,978, or $974,770, was the net increase to reserve for depreciation. The same rates of depreciation were used as in the previous year but depreciation could not be taken on certain assets in 1939 which had become fully depreciated; accordingly, the depreciation charge for the year was lower to that extent than in 1938.



Loss on fixed assets, sold or retired during the year, amounted to $107,990 and was charged against the year's Profit and Loss account.

Again a very substantial sum, namely $1,053,874 was expended for repair and maintenance of buildings, machinery and equipment, and this entire amount was absorbed in operating cost.

The diagram at the left and table below indicate the relative proportion of net sales accounted for by profit, labor, selling, administrative and general expense, raw materials, factory supplies and expense, depreciation, interest and taxes.

	1939		1938	
Net sales	$24,114,815	100.00%	$18,705,290	100.00%
Raw materials	$ 9,944,774	41.24%	$ 7,307,215	39.07%
Factory supplies and expense	4,510,314	18.70	3,879,927	20.74
Labor	4,274,026	17.73	3,738,044	19.98
*Selling, administrative and general expense	1,644,532	6.82	1,642,924	8.78
Provision for depreciation (1939 includes $3,669 of depletion)	1,180,417	4.89	1,261,111	6.74
Provision for local and Federal taxes	784,372	3.25	472,977	2.53
Interest charges	327,480	1.36	373,622	2.00
Net profit	1,448,900	6.01	29,470	.16

*Includes other income and charges.

The year's profit represents a return of eight per cent on the average capital (capital stock and surplus) employed during the year. Largely due to the fact that practically no earnings were made in the first seven months of the year, the return on capital for the full year was lower than reasonable.

WORKING CAPITAL. The following table gives comparison of working capital for the last two years:

	December 31 1939	December 31 1938	Increase or Decrease (d)
CURRENT ASSETS:			
Cash in banks and on hand	$1,044,918	$1,031,969	$ 12,949
Customer's accounts and notes receivable, less reserves	1,676,406	1,132,685	543,721
Notes receivable (secured by property sold)	125,000	250,000	125,000(d)
Miscellaneous receivables	102,046	91,998	10,048
Inventories	3,644,189	2,859,950	784,239
Total Current Assets	$6,592,559	$5,366,602	$1,225,957
CURRENT LIABILITIES:			
Accounts payable—trade creditors	$ 544,006	$ 446,525	$ 97,481
Accounts payable—construction contracts	275,999	—	275,999
Accrued interest	18,193	20,892	2,699(d)
Accrued wages and salaries	167,370	58,438	108,932
Accrued taxes	302,636	288,110	14,526
Provision for Federal income taxes	296,000	34,200	261,800
Sundry accruals	28,779	25,000	3,779
Sinking fund payments due within year	250,000	128,000	122,000
Total Current Liabilities	$1,882,983	$1,001,165	$ 881,818
Net Working Capital	$4,709,576	$4,365,437	$ 344,139
Current Ratio	3.50 to 1	5.36 to 1	

Under current assets, the increase in receivables was due to the larger volume of business; receivables were in excellent shape with an average age of about twenty-six days and a charge-off for last year of less than eight hundredths of one per cent. The substantial increase in inventories is accounted for by: (1) the higher rate of business activity at the end of 1939 vs. 1938; (2) the higher value of most of the inventory items; and (3) finally, the substantially larger quantities of certain raw materials such as sulphite pulps, groundwood and salt cake which were stocked early in the year when the possibility of war breaking out in Europe appeared more imminent.

Under current liabilities, the increase in accounts payable was mostly due to larger volume of business being done at the year-end compared with the previous year-end; the increase in accrued wages and salaries was due principally to bonuses earned on the larger last quarter profit by sales representatives and sales and factory managers; the higher profit earned required a larger provision for Federal income tax; the provision for sinking fund payments due within the year was increased as the first mortgage indenture calls for the maximum sinking fund requirement of $250,000 based on the increased earnings. The Company is contractually committed for certain machinery and equipment purchases and construction work which will not be completed until 1940 but for which liability was set up in the amount of $275,999.

An application of funds statement follows which gives the source of funds and their disposition:

Funds provided from the following sources:			
Profit for year		$1,448,900	
Add expense items not involving cash—			
Provision for depreciation	$1,176,748		
Provision for depletion	3,669		
Amortization of debt discount and expense	38,124		
Loss on property sold or retired	107,990	1,326,531	$2,775,431
Sale of property			28,647
Decrease in deferred charges other than debt discount and expense			11,832
			$2,815,910
Which were expended or accounted for as follows:			
Net increase in working capital			$ 344,139
Net increase in other receivables and investments			74,219
Dividend paid			195,313
Company's own bonds and debentures purchased and called		$ 697,500	
Add—increase in current maturities		122,000	819,500
Prior years' Federal income taxes and interest paid			428,418
Additions to plant and equipment		$ 678,322	
Add—construction in progress		275,999	954,321
			$2,815,910

You will note that the two major sources of funds were a net profit of $1,448,900 and depreciation of $1,176,748. In the main, incoming funds were used primarily for three purposes:

1. Funded debt was reduced by $819,500, of which $697,500 represents bonds and debentures acquired or called and $122,000 an increase of sinking fund requirement due within twelve months and accordingly listed as a current liability.

2. A dividend of 25 cents per share, or $195,313, was paid to shareholders on November 20, 1939.

3. Capital expenditures in the amount of $954,321 were made for improvements and additions to buildings, machinery, and equipment; this includes the $275,999 of expenditures committed for, but not completed at the end of the year.

After these various funds were expended, there was an increase in working capital of $344,139.

The two double page tabulations on pages 20 to 23, set out a twelve year comparison of balance sheet, a summary of profit and loss, as well as a record of dividends and bond and debenture interest paid. During this period there were total earnings of $6,769,396. Total dividends paid amounted to $4,552,572 and total bond and debenture interest paid aggregated $5,282,225. Funded debt was reduced from a high of $9,997,000 to $5,126,000; the formerly outstanding 7 per cent Preferred Stock was partially retired through cash purchases and the remainder retired through the issuance of Capital Stock at the same time the Class A and Class B Common Stocks were reclassified into the presently outstanding Capital Stock. Working capital was increased by $1,857,284.

FUNDED OBLIGATIONS. Funded debt position for December 31, 1938 and 1939 is set out in the following table:

	Dec. 31 1939	Dec. 31 1938	Increase Decrease(d)
First Mortgage Sinking Fund 6% Bonds due June 15, 1946...	$2,524,000	$2,648,500	$124,500(d)
Fifteen Year 5% Debentures due June 1, 1943...........	2,852,000	3,425,000	573,000(d)
Total Outstanding................................	$5,376,000	$6,073,500	$697,500(d)
Less current sinking fund requirements in excess of bonds in treasury:			
First Mortgage Sinking Fund 6% Bonds due June 15, 1946	$ 250,000	$ 128,000	$122,000
	$5,126,000	$5,945,500	$819,500(d)

You will be interested to know that the Board of Directors has approved and authorized the proper officers to effect a five year bank loan of five million dollars ($5,000,000), the proceeds of which will be used to retire all the outstanding First Mortgage Bonds and Debentures of the Company. Under the agreement with the participating banks, the Company will pay off $600,000 per annum in monthly installments. The annual rate of interest for the first $600,000 note will be 1½ per cent, for the second 1¾ per cent, for the third 2 per cent, for the fourth 2¼ per cent, for the fifth 2½ per cent and likewise 2½ per cent for the remaining $2,000,000 maturing at the end of the fifth year. The annual cash outlay for payment of principal and interest on this bank loan will be substantially less than the annual principal and interest payments on funded debt have averaged over the last five and ten year periods. The agreements with the participating banks approved by the Company's General Counsel have been signed by both the Company and the banks and a small stand-by fee has been paid to the banks to insure the availability of the funds for the Company's use anytime between now and June 15th.

CAPITALIZATION. Throughout the year there were 781,253 shares of Capital Stock of $20 par value outstanding. These shares were held by approximately 8,000 stockholders. It is interesting to note that 41 per cent of your Company's outstanding shares are in the hands of owners who hold from one to 200 shares each; 32 per cent were held by holders of from 201 to 5,000 shares and 27 per cent by owners of 5,001 or more shares. The largest individual holding represents less than 8 per cent of the total outstanding shares.

SURPLUS. Earned surplus was credited with the year's net profit of $1,448,900. Also, because the provision for prior year's Federal income tax in dispute of $500,000 was $71,582 higher than necessary, the latter amount was credited back to earned surplus. The dividend payment of $195,313 was charged against surplus. The net addition to surplus for the year was $1,325,168.

OPERATIONS

The following tabulation gives the number of tons produced in the mills and also the number of tons of finished product shipped, with comparisons for previous years:

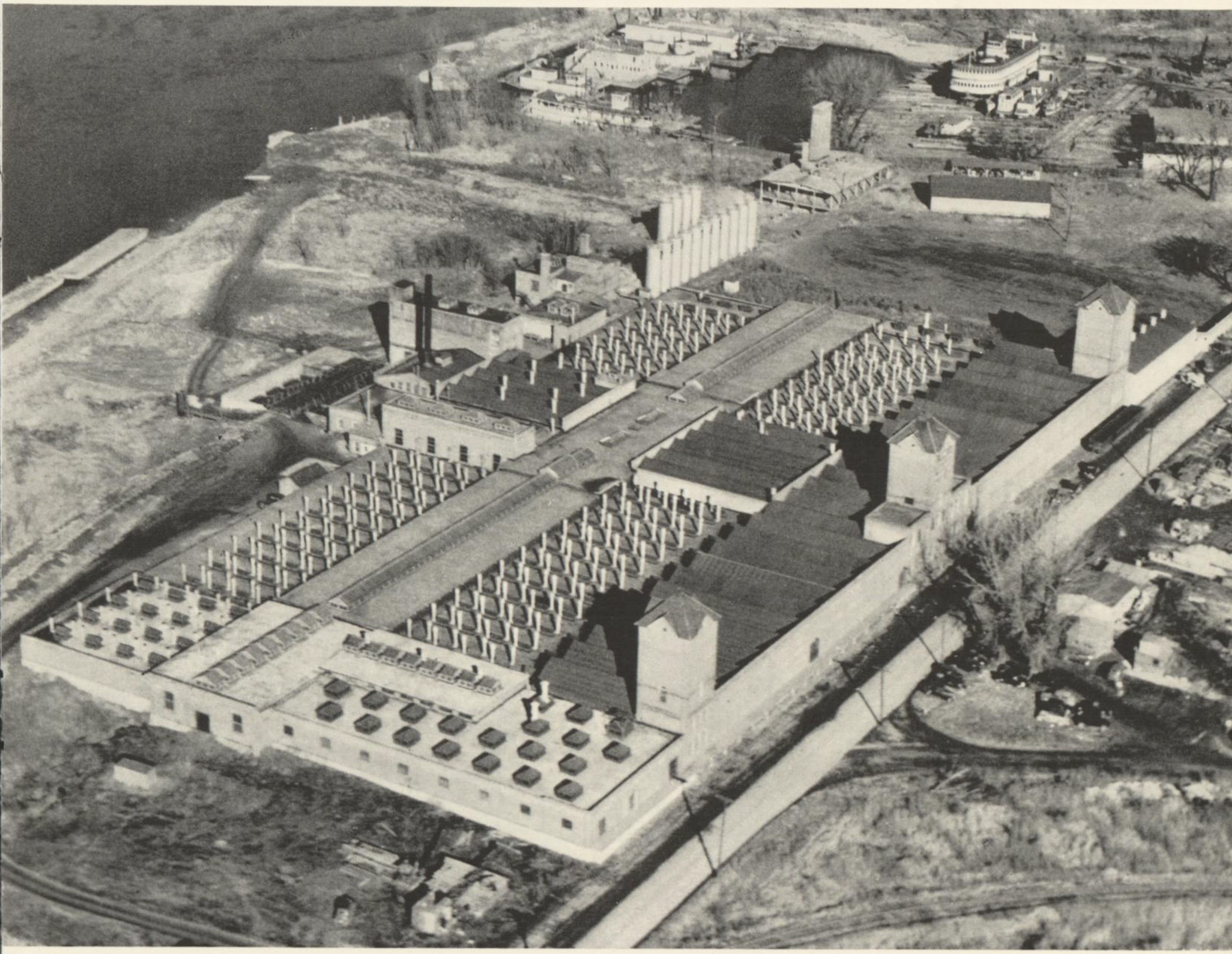
	Tons Produced in Mills	Tons Finished Product Shipped
1932	252,464	281,423
1933	299,346	320,961
1934	300,424	312,830
1935	373,399	382,381
1936	428,627	441,086
1937	391,270	390,496
1938	346,616	361,820
1939	432,848	462,385

Much interest has been evinced by shareholders in the Company's pulp supply. In 1939 your Company consumed about 24,000 tons of sulphate kraft pulp; the production of its Fernandina mill was 45,000 tons; the excess was sold to various manufacturers of kraft wrapping paper, bags and paperboard. The Fernandina pulp mill is expected to produce about 10,000 more tons in 1940 than in 1939 because, (1) it has now attained an increased daily capacity compared with the fore part of last year and (2) additional equipment is being installed to provide more production.

Your Company consumed during the year 14,000 tons of bleached and unbleached sulphite pulp. The Fernandina mill produces only sulphate pulp but none of the sulphite pulp here mentioned. At the Board meeting on April 26, 1939, shortly after the second Czechoslovakian crisis, your Directors approved the Management's recommendation that sulphite pulp be purchased and immediate delivery requested from foreign and domestic sources of supply in sufficiently substantial tonnages to protect for a longer than normal period your Company's requirements in case of war. As a result, your Company has on hand (including a small amount on order from domestic suppliers) sufficient sulphite pulp for a year's requirement on the basis of the high consumption rate of 1939. Our requirements of groundwood are similarly well protected.

Summarizing, therefore, your Company is fully covered on sulphite and groundwood for a year in advance and in case of a protracted war its excess production of sulphate pulp at Fernandina over and above the consumptive requirements of its own paperboard mills, will act as a hedge against potentially rising prices of sulphite pulp. Satisfactory domestic sources of supply of sulphite were developed during the past year as it seemed inadvisable to rely entirely on foreign importations.

As previously mentioned in this report, $1,053,874 was spent for repair and maintenance of properties and $954,321 for new additions and improvements; the former was expensed, the latter capitalized. Among the more important capital expenditures were the following: at Circleville a new 2500 horse power boiler was installed at a cost of approximately $190,000; at Fernandina, lime burning equipment for recovery purposes was



Building on Mill Street, Rock Island, Illinois in which leased areas are occupied by the Company's new Quad-Cities Division.

provided costing about $90,000; at various box factories, new fabricating equipment for both shipping case and folding carton manufacture was installed including printing presses, pasting and lining machinery, gluers, cutting presses, etc. Your Company's fleet of trucks is continually being kept up by purchases of new models, replacing older and worn equipment. Also some land was bought for settling pond purposes in connection with the strawboard mills and some small and scattered timberland and stumpage purchases were made as an additional reserve of raw material for the pulp mill.

The two machine paper mill of the Delaware Paper Mills at Wilmington, Del. was leased by your Company on May 24, 1939. At that time, the Philadelphia mill was in need of some additional business and, therefore, the Wilmington machines were shut down and their business transferred to Philadelphia. Toward the end of October, operations were reopened on the Fourdrinier machine in the Wilmington mill. It has been running steadily since then. The lease arrangement which your Company has includes a purchase option and if this option should be exercised any time in the future, the rental payments made up to that time would apply against the purchase price.

A new corrugated box factory is being equipped at Rock Island, Illinois. This will relieve the pressure at the Chicago Ogden Avenue factory which during most normal periods runs full and during peak periods has often been strained beyond its normal and most economic capacity. The new plant will occupy leased ground and buildings and contain the most modern box factory machinery and equipment available. Initial operations are commencing now.

The Fernandina pulp mill ran at capacity all last year but, due to very low pulp prices for eight months of the year, contributed less than 5% of the Company's reported profit. In writing last year's Annual Report on March 28, 1939, the following statement was made: "During the various recent periods when war fears gripped the world, it has been a reassuring feeling to know that no matter what happened in Europe, your Company's important requirements of sulphate pulp would continue to be available from Fernandina, Fla., through the operation of this mill and were not dependent upon importations from across the seas." With the outbreak of war in Europe, these words have become more prophetic than seemed entirely probable at the time of writing. It has become increasingly hazardous to count on pulp importations from the Scandinavian countries. Market prices for pulp are substantially higher than a year ago, and it is quite possible that this upward trend will continue. Your Management feels that the Fernandina operation, well justified in normal times, is indispensable under conditions as now exist in order to assure dependability of supply and economical cost of our large sulphate pulp requirements.

SALES

Consolidated net sales for 1939 were $24,114,815. The increase over the previous year was 29 per cent in dollar volume and 28 per cent in units. Many new outlets for our products were added both in new customers and new uses. The sales promotion, laboratory and research departments are full of further new developments. Some of these are revolutionary in character and potentially very broad in scope and in possibilities of application.

AFFILIATED AND SUBSIDIARY COMPANIES

The Sefton Fibre Can Company of St. Louis, Mo., earned a net profit of $46,361 in 1939. It was able to improve its machinery and equipment account by advantageous capital expenditures; reduced its outstanding Preferred Stock by a par value of $15,000; paid all required preferred dividends and increased its working capital by some $10,000. Be-

New reception room at 35th Street. This simple type of factory reception room is developed to fit the functional character of the Company's fabricating plants.

cause your Company does not own all the outstanding capital stock of this company, neither its balance sheet nor profit and loss figures are included in the consolidated data contained in this report.

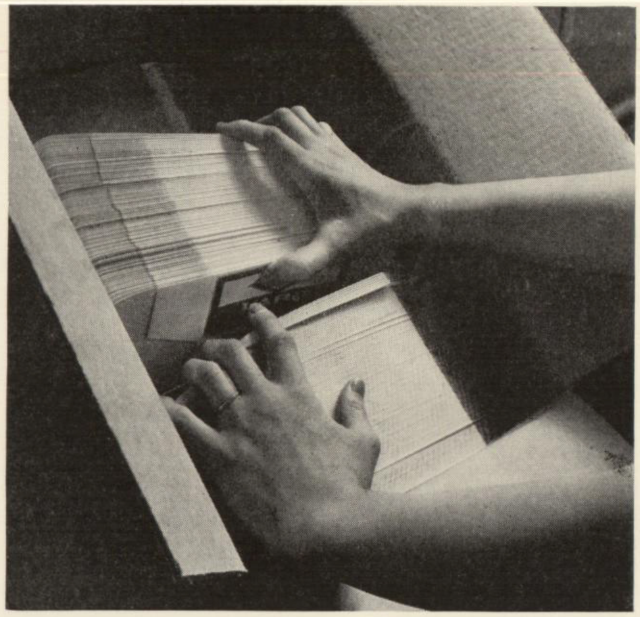
The paperstock subsidiaries enjoyed a reasonably good volume of business last year. Selling prices on their various products were unsatisfactorily low most of the year; nevertheless, operations resulted in a profit.

Toward the middle of the year a paperstock operation was begun in Detroit, Michigan, in leased premises.

PAPERBOARD AND CONTAINER INDUSTRY CONDITIONS

Volume for the first two-thirds of the year was quite satisfactory; the abnormally high peaks reached during the last third of the year contributed more than their share to make

Folding cartons are carefully packed for shipment in units of a size and weight convenient for easy handling and storage. Corrugated shipping containers are used whenever special protection must be given to insure efficient filling machine operation, or to protect special surfaces such as lacquer, varnish, and paraffin.



Clean, well kept areas, for both actual manufacturing and for storage, are the rule in Container Corporation of America plants. Cartons awaiting shipment are stored in warehouse units such as these in the photograph.

1939 the biggest year on record of these two industries. Selling prices were unsatisfactorily low until the fall increase of volume brought with it a correction of this phase of the situation. Incoming orders began falling off during the last two months of the year and at this writing are still somewhat less than the present rate of operations. However, with present volume larger than a year ago and with price levels better, the immediate industry situation is improved compared with this time last year. In conformity herewith, your Corporation's profit for the first two months of the year was $346,102 compared with a loss of $35,385 for the first two months of 1939.

In the month of August a Federal indictment was returned against twenty-six companies in the container industry, including this Company, for alleged violation (through its association activities) of the Sherman Antitrust Act. It would appear that an industry which has doubled its capacity and output during the last fifteen years, which is paying substantially higher hourly rates of wages to labor and very much higher taxes to various branches of government, and which sold its product in 1939 at an average price of about two-thirds the price level of 1926 can hardly be consistently charged with any broad curtailment of production or factual price maintenance. On the contrary, there are few industries indeed that have contributed as much by way of development of their products and expansion of their markets and by way of steadily increasing employment that have at the same time offered their buying public gradually lower prices and ever increasing values.

ORGANIZATION

During the early part of the year, sharp reductions in administrative and operating costs were demanded of the entire organization. By the third quarter most of these were in effect. You will note that selling and administrative expense was $57,947 lower than in 1938; this, in spite of a 29 per cent increase in volume. The Organization's accomplishment becomes clearer when expressed in percentages: selling and administrative expense in 1938 was 9.35 per cent of sales; in 1939 it was 7.01 per cent. Equally important reductions were secured in operating costs. For this performance and the intelligent, aggressive yet cooperative efforts which were required to bring it about due appreciation and recognition are herewith expressed to all employees of the Organization.

Your Company has had a group insurance plan in effect for over nine years; part of the premium is paid by the employees and part by the Company. Beginning this year your Board included hospitalization and surgical care for all those insured under the group insurance plan, at no additional expense to the employees and at only slight additional expense to the Company.

Mr. J. V. Spachner and Mr. Ira C. Keller were elected Vice Presidents during the year. They had been in the continuous employ of the Company and its constituent companies for twenty-one and fourteen years respectively and well deserve this recognition of their long and valuable services.

Submitted on behalf of the Board of Directors.

Respectfully,

Walter P. Paepcke

President

CONTAINER CORPORATION OF AMERICA AND

CONSOLIDATED YEAR-END BALANCE SHEETS FOR TWELVE YEAR

ASSETS

	1939	1938	1937	1936	1935
Cash on hand and in banks	$ 1,044,918	$ 1,031,969	$ 1,650,344	$ 1,147,362	$ 1,131,576
Accounts and notes receivable—less reserves	1,903,452	1,474,683	1,133,116	1,625,631	1,155,580
Inventories	3,644,189	2,859,950	3,143,426	2,900,739	2,896,060
Total current assets	$ 6,592,559	$ 5,366,602	$ 5,926,886	$ 5,673,732	$ 5,183,216
Other receivables and investments	1,561,736	1,487,517	1,848,555	149,754	90,563
Treasury stock at cost	—	—	—	—	—
Land	3,463,005	3,450,285	3,192,264	3,237,069	3,237,069
Buildings, machinery and equipment	24,051,950	23,452,635	22,720,891	21,872,009	21,143,364
Reserve for depreciation	*9,897,678*	*8,922,908*	*7,763,149*	*7,738,397*	*6,760,214*
Deferred charges	338,039	387,994	385,583	438,647	433,644
Goodwill and patents	1	1	1	1	1
Organization expense	—	—	—	—	—
	$26,109,612	$25,222,126	$26,311,031	$23,632,815	$23,327,643

LIABILITIES

	1939	1938	1937	1936	1935
Accounts payable	$ 820,005	$ 446,525	$ 363,451	$ 1,305,003	$ 758,558
Accrued interest, wages, taxes, etc	516,978	392,440	434,276	415,636	329,066
Reserve for Federal income tax	296,000	34,200	528,000	255,000	217,500
Sinking fund payments due within a year	250,000	128,000	115,000	154,000	250,000
Total current liabilities	$ 1,882,983	$ 1,001,165	$ 1,440,727	$ 2,129,639	$ 1,555,124
Funded debt	5,126,000	5,945,500	6,472,000	6,980,500	7,736,360
Provision for prior years Federal income taxes in dispute	—	500,000	—	—	—
Reserve for contingencies	—	—	449,114	434,114	417,614
Capital stock	15,625,060	15,625,060	15,625,060	13,070,800	13,070,800
7% Preferred stock	—	—	—	—	—
Class A common stock	—	—	—	—	—
Class B common stock	—	—	—	—	—
Capital surplus	671,494	671,494	383,139	—	—
Earned surplus	2,804,075	1,478,907	1,940,991	1,017,762	547,745
	$26,109,612	$25,222,126	$26,311,031	$23,632,815	$23,327,643
Working capital	$ 4,709,576	$ 4,365,437	$ 4,486,159	$ 3,544,093	$ 3,628,092
Current ratio	3.50 to 1	5.36 to 1	4.11 to 1	2.66 to 1	3.33 to 1

Note—Italics denote red figures.

SUBSIDIARY COMPANIES

PERIOD ENDED DECEMBER 31, 1939

1934	1933	1932	1931	1930	1929	1928
$ 820,912	$ 439,616	$ 1,027,685	$ 876,050	$ 222,144	$ 491,956	$ 656,535
1,146,099	1,161,913	804,972	932,857	1,149,294	1,238,223	1,028,026
2,489,422	2,622,308	1,257,032	1,832,466	2,658,541	2,083,884	2,009,890
$ 4,456,433	$ 4,223,837	$ 3,089,689	$ 3,641,373	$ 4,029,979	$ 3,814,063	$ 3,694,451
136,840	195,079	40,475	92,844	172,862	156,599	267,510
93,750	93,750	93,750	33,750	480,451	—	—
3,219,640	3,219,640	3,251,857	3,321,932	3,330,544	2,781,957	2,781,307
20,172,812	18,795,010	19,734,390	20,059,310	20,454,670	18,474,177	18,133,208
5,789,049	***5,084,545***	***4,949,959***	***4,205,822***	***3,579,910***	***2,786,322***	***2,103,217***
487,155	622,916	591,908	715,645	844,018	863,546	851,058
1	1	1	1	1	—	—
—	—	—	—	49,735	49,735	49,735
$22,777,582	$22,065,688	$21,852,111	$23,659,033	$25,782,350	$23,353,755	$23,674,052

$ 988,356	$ 985,431	$ 340,754	$ 300,907	$ 574,222	$ 416,374	$ 560,203
304,602	327,794	279,899	391,994	345,397	258,945	165,581
195,000	—	—	—	—	85,300	116,375
201,500	14,000	14,000	20,500	111,500	—	—
$ 1,689,458	$ 1,327,225	$ 634,653	$ 713,401	$ 1,031,119	$ 760,619	$ 842,159
7,783,500	8,239,000	8,666,000	8,949,125	9,523,625	9,488,500	9,997,000
—	—	—	—	—	—	—
81,622	86,122	86,122	101,622	81,622	81,622	116,554
—	—	—	—	—	—	—
1,206,600	1,575,300	1,832,200	2,035,900	2,070,000	1,909,100	2,000,000
7,471,100	7,471,100	7,471,100	7,471,100	7,928,560	5,483,500	5,475,500
2,890,945	2,890,945	2,890,945	2,890,945	4,424,483	4,424,483	4,424,483
1,922,499	1,658,285	1,460,811	1,460,811	—	—	—
268,142	***1,182,289***	***1,189,720***	36,129	722,941	1,205,931	818,356
$22,777,582	$22,065,688	$21,852,111	$23,659,033	$25,782,350	$23,353,755	$23,674,052
$ 2,766,975	$ 2,896,612	$ 2,455,036	$ 2,927,972	$ 2,998,860	$ 3,053,444	$ 2,852,292
2.64 to 1	3.18 to 1	4.87 to 1	5.10 to 1	3.91 to 1	5.01 to 1	4.39 to 1

CONTAINER CORPORATION OF AMERICA AND

CONSOLIDATED PROFIT AND LOSS STATEMENTS FOR TWELVE

	1939	1938	1937	1936	1935
Consolidated net sales (including brokerage sales of subsidiaries)	$24,114,815	$18,705,290	$25,268,327	$22,525,268	$20,181,777
Cost of sales (exclusive of depreciation)	19,172,531	15,295,294	19,201,297	17,466,001	15,356,939
Gross profit (exclusive of depreciation)	$ 4,942,284	$ 3,409,996	$ 6,067,030	$ 5,059,267	$ 4,824,838
Provision for depreciation	1,180,417	1,261,111	1,216,800	1,172,734	1,152,590
Gross profit from operations	$ 3,761,867	$ 2,148,885	$ 4,850,230	$ 3,886,533	$ 3,672,248
Selling, administrative and general expenses (exclusive of bad debts)	1,690,557	1,748,504	2,027,711	1,791,599	1,575,614
Net profit from operations (exclusive of bad debts)	$ 2,071,310	$ 400,381	$ 2,822,519	$ 2,094,934	$ 2,096,634
Other income and ***charges***—net	36,237	75,930	***71,770***	***89,054***	***143,609***
Net profit before interest and Federal income taxes	$ 2,107,547	$ 476,311	$ 2,750,749	$ 2,005,880	$ 1,953,025
Interest charges, etc	365,604	412,641	438,644	463,938	497,516
Net profit before Federal income taxes	$ 1,741,943	$ 63,670	$ 2,312,105	$ 1,541,942	$ 1,455,509
Provision for Federal income taxes	293,043	34,200	528,000	255,000	217,500
Net profit carried to earned surplus	$ 1,448,900	$ 29,470	$ 1,784,105	$ 1,286,942	$ 1,238,009

Note—Italics denote red figures.

RECORD OF DIVIDENDS AND BOND AND DEBENTURE INTEREST PAID FOR TWELVE YEAR PERIOD—JANUARY 1, 1928

Dividends paid:					
Preferred stocks	—	—	—	—	$ 422,310
Common stocks	$ 195,313	$ 234,376	$ 860,876	$ 816,925	—
Total dividends	$ 195,313	$ 234,376	$ 860,876	$ 816,925	$ 422,310
*Bond and debenture interest paid	$ 310,900	$ 346,005	$ 374,340	$ 422,459	$ 438,871
Total dividends and interest	$ 506,213	$ 580,381	$ 1,235,216	$ 1,239,384	$ 861,181

*On basis of cash payments made. This differs slightly from accrual basis used on profit and loss statement.

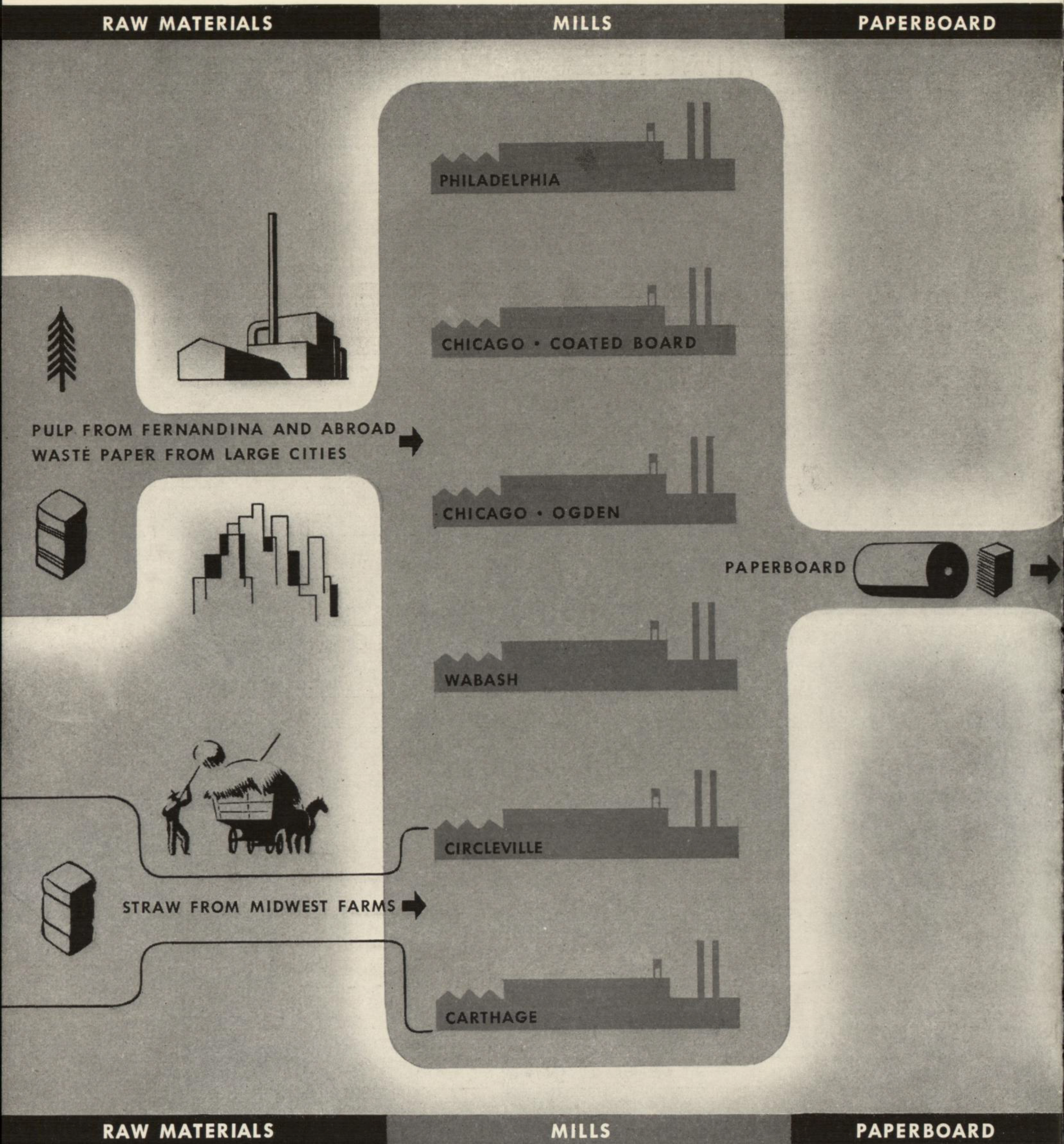
SUBSIDIARY COMPANIES

YEAR PERIOD ENDED DECEMBER 31, 1939

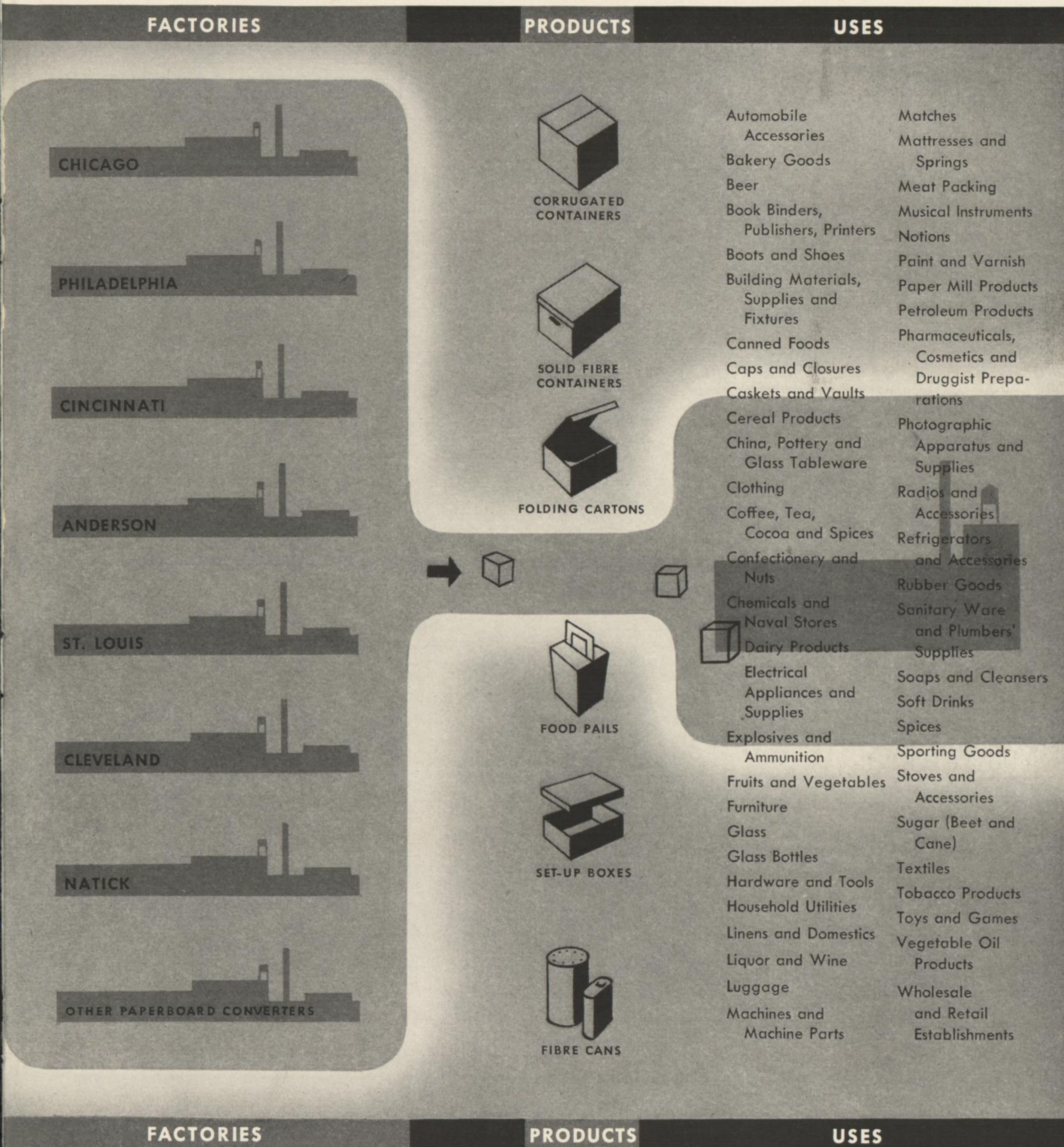
1934	1933	1932	1931	1930	1929	1928	Total
$18,316,508	$15,419,759	$11,457,966	$15,742,264	$19,102,126	$19,461,354	$17,336,143	$227,631,597
14,136,407	12,819,457	10,292,552	13,606,085	15,653,844	15,912,933	13,611,193	182,524,533
$ 4,180,101	$ 2,600,302	$ 1,165,414	$ 2,136,179	$ 3,448,282	$ 3,548,421	$ 3,724,950	$ 45,107,064
984,162	791,007	806,467	830,168	826,447	748,584	678,246	11,648,733
$ 3,195,939	$ 1,809,295	$ 358,947	$ 1,306,011	$ 2,621,835	$ 2,799,837	$ 3,046,704	$ 33,458,331
1,375,624	1,096,807	1,188,528	1,551,114	2,006,478	1,534,304	1,502,748	19,089,588
$ 1,820,315	$ 712,488	$ *829,581*	$ *245,103*	$ 615,357	$ 1,265,533	$ 1,543,956	$ 14,368,743
21,278	*55,468*	*14,897*	139,176	127,750	182,597	*12,978*	152,636
$ 1,799,037	$ 657,020	$ *844,478*	$ *105,927*	$ 743,107	$ 1,448,130	$ 1,530,978	$ 14,521,379
491,326	516,099	535,885	580,886	623,174	588,172	508,087	6,021,972
$ 1,307,711	$ 140,921	$ *1,380,363*	$ *686,813*	$ 119,933	$ 859,958	$ 1,022,891	$ 8,499,407
195,000	—	—	—	14,766	85,540	106,962	1,730,011
$ 1,112,711	$ 140,921	$ *1,380,363*	$ *686,813*	$ 105,167	$ 774,418	$ 915,929	$ 6,769,396

TO DECEMBER 31, 1939

$ —	$ —	$ —	$ 37,100	$ 129,780	$ 143,150	$ 212,424	$ 944,764
—	—	—	114,403	421,555	339,597	624,763	3,607,808
$ —	$ —	$ —	$ 151,503	$ 551,335	$ 482,747	$ 837,187	$ 4,552,572
$ 438,170	$ 458,685	$ 478,270	$ 509,901	$ 529,549	$ 523,250	$ 451,825	$ 5,282,225
$ 438,170	$ 458,685	$ 478,270	$ 661,404	$ 1,080,884	$ 1,005,997	$ 1,289,012	$ 9,834,797



SOURCES AND FLOW OF PRIMARY MATERIALS THROUGH MILLS



AND FACTORIES OF CONTAINER CORPORATION OF AMERICA

CONTAINER CORPORATION OF AMERICA

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS:			
Cash in banks and on hand		$ 1,044,918.30	
Customers' accounts and notes receivable	$ 1,792,257.25		
Less—Reserve for doubtful accounts and allowances	115,851.23	1,676,406.02	
Note receivable due in 1940		125,000.00	
Sundry current receivables		102,045.85	
Inventories of raw materials, work in process, finished goods and supplies; priced at the lower of cost or market		3,644,188.63	
Total current assets			$ 6,592,558.80
OTHER RECEIVABLES AND INVESTMENTS:			
Notes receivable (secured by property sold) maturing $125,000.00 semiannually from January 1, 1941 to July 1, 1943		$ 750,000.00	
Advances under contract		698,038.23	
Other receivables and investments		113,697.41	1,561,735.64
PLANT AND EQUIPMENT—stated at amounts recorded at dates of acquisition (including acquisition for stock) based, in part, on appraisals, plus additions since at cost, less reserve for depreciation:			
Land		$ 3,463,005.50	
Buildings	$ 7,413,147.53		
Machinery, equipment, etc.	12,394,873.66		
Leasehold and leasehold improvements	3,967,930.55		
	$23,775,951.74		
Less—Reserve for depreciation	9,897,677.81	13,878,273.93	
Construction work in progress		275,998.58	17,617,278.01
DEFERRED CHARGES TO FUTURE OPERATIONS:			
Unamortized debt discount and expense		$ 157,484.91	
Prepaid insurance		136,251.08	
Other prepaid expenses, etc.		44,302.63	338,038.62
GOODWILL AND PATENTS—at nominal value			1.00
			$26,109,612.07

LIABILITIES

Current Liabilities:			
Accounts payable—			
Trade creditors	$544,006.30		
Construction contracts	275,998.58	$ 820,004.88	
Accrued interest, wages, taxes, etc.		516,977.89	
Provision for Federal income taxes (subject to final determination by treasury department)		296,000.00	
Sinking fund payments due in 1940		250,000.00	
Total current liabilities			$ 1,882,982.77
Funded Debt—less sinking fund payments due in 1940 shown above, and bonds held in treasury (See accompanying summary):			
First mortgage sinking fund 6% bonds, due June 15, 1946		$ 2,274,000.00	
Fifteen year 5% debentures, due June 1, 1943		2,852,000.00	5,126,000.00
Capital Stock and Surplus:			
Capital stock—			
Authorized 1,000,000 shares of $20 par value			
Outstanding 781,253 shares		$15,625,060.00	
Paid-in surplus (no change during year)		671,494.30	
Earned surplus (See accompanying summary)		2,804,075.00	19,100,629.30
			$26,109,612.07

CONTAINER CORPORATION OF AMERICA AND SUBSIDIARY COMPANIES

SUMMARY OF CONSOLIDATED PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1939

Consolidated Net Sales (including brokerage sales of subsidiary)			$24,114,814.53
Cost of Sales (exclusive of depreciation)			19,172,530.51
Gross profit (exclusive of depreciation)			$ 4,942,284.02
Provision for Depreciation (including $3,668.92 of depletion)			1,180,417.02
Gross profit from operations			$ 3,761,867.00
Selling, Administrative and General Expenses (exclusive of bad debts)			1,690,556.86
Net profit from operations (exclusive of bad debts)			$ 2,071,310.14
Add:			
Purchase discounts, interest earned, etc.		$156,000.49	
Rental income		31,214.40	
		$187,214.89	
Less—			
Loss on sales or retirements of capital assets	$107,990.45		
Nonoperating rental expense, etc.	24,064.44		
Provision for bad debts, less recoveries	18,922.93	150,977.82	36,237.07
Net profit before interest and Federal income taxes			$ 2,107,547.21
Interest Charges, Etc.:			
Interest on first mortgage bonds		$156,663.75	
Interest on debentures		160,645.43	
Amortization of debt discount and expense		38,124.24	
Other interest, etc.		10,171.21	365,604.63
Net profit before Federal income taxes			$ 1,741,942.58
Provision for Federal Income Taxes			293,043.00
Net profit carried to earned surplus			$ 1,448,899.58

CONTAINER CORPORATION OF AMERICA AND SUBSIDIARY COMPANIES

SUMMARY OF EARNED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1939

BALANCE AT DECEMBER 31, 1938			$1,478,906.71
ADD:			
Net profit for year (See accompanying summary)		$1,448,899.58	
Provision for prior years' Federal income taxes in dispute	$500,000.00		
Less—Amounts paid during 1939 for additional Federal income taxes for years 1926 to 1937, inclusive	428,418.04		
Excess returned to earned surplus		71,581.96	1,520,481.54
			$2,999,388.25
DEDUCT—Cash dividend paid (25 cents per share)			195,313.25
Balance at December 31, 1939			$2,804,075.00

NOTE: According to restrictions in the 5% debenture trust agreement, surplus of subsidiaries as at January 1, 1928 amounting to $367,184.86 is not available for cash dividends.

STATEMENT OF FUNDED DEBT—DECEMBER 31, 1939

PARTICULARS	First Mortgage Sinking Fund 6% Bonds Due June 15, 1946 (Note 1)	Fifteen Year 5% Debentures Due June 1, 1943 (Note 2)	Total
AUTHORIZED	$10,000,000.00	$6,000,000.00	$16,000,000.00
Less—Unissued	5,000,000.00	—	5,000,000.00
	$ 5,000,000.00	$6,000,000.00	$11,000,000.00
DEDUCT:			
Redeemed	$ 2,476,000.00	$2,300,000.00	$ 4,776,000.00
In treasury—			
For 1940 sinking fund requirements	—	200,000.00	200,000.00
In excess of 1940 sinking fund requirements (Note 4)	—	648,000.00	648,000.00
	$ 2,476,000.00	$3,148,000.00	$ 5,624,000.00
BALANCE DECEMBER 31, 1939	$ 2,524,000.00	$2,852,000.00	$ 5,376,000.00
DEDUCT—Sinking fund payment due in 1940 in excess of treasury bonds available included in current liabilities	250,000.00	—	250,000.00
Balance payable subsequent to December 31, 1940	$ 2,274,000.00	$2,852,000.00	$ 5,126,000.00

NOTES:

(1) The trust indenture requires semiannual sinking fund payments of $62,500.00 (or a deposit of an equivalent principal amount of bonds) and in addition, annually on May 1, an amount equivalent to 20% of the net profits for the preceding year; such additional amount not to exceed $125,000.00. Under these terms, a sinking fund payment of $250,000.00 must be made in 1940.

(2) The trust indenture requires semiannual sinking fund payments sufficient to redeem $100,000.00 principal amount of debentures or deposit of $100,000.00 principal amount thereof.

(3) The entire capital stock, except directors' shares of Chicago Mill Paper Stock Company, a subsidiary, is pledged with the trustees under the first mortgage bonds.

(4) The fifteen year 5% debentures held in the treasury include $11,000.00 principal amount deposited in escrow.

ARTHUR ANDERSEN & CO.

135 SOUTH LA SALLE STREET
CHICAGO

To the Stockholders of

Container Corporation of America:

We have examined the consolidated balance sheet of CONTAINER CORPORATION OF AMERICA and its subsidiaries as of December 31, 1939 and the summaries of consolidated profit and loss and surplus for the year ended that date. In connection therewith we have examined or tested accounting records of the companies and other supporting evidence and have reviewed the system of internal control and the accounting procedures of the companies by methods and to the extent we deemed appropriate, but we did not make a detailed audit of the transactions.

In our opinion the accompanying consolidated balance sheet and related summaries of consolidated profit and loss and surplus fairly present the financial position of Container Corporation of America and its subsidiaries at December 31, 1939 and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles maintained by the companies on a basis consistent with that of the preceding year.

Chicago, Illinois,
February 3, 1940.

Arthur Andersen & Co.

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